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SIPDIS

INFO USDOC WASHDC
AMEMBASSY BANGKOK
AMEMBASSY BEIJING
AMEMBASSY SEOUL
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMEMBASSY MANILA
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY HANOI
AMEMBASSY CANBERRA
AMEMBASSY WELLINGTON
AMCONSUL HONG KONG
AMCONSUL SHANGHAI
AMCONSUL GUANGZHOU
DEPT OF TREASURY WASHDC

SIPDIS, SENSITIVE BUT UNCLASSIFIED

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/TC, EAP/EP

USTR FOR ALTBACH AND STRATFORD

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: WEF Ranks Taiwan 100th in Banking Soundness

SUMMARY

1. The World Economic Forum (WEF) recently gave Taiwan's banking system a ranking of 100th out of 125 rated economies. Taiwan's banking regulators have expressed dismay, disagreement, and have pointed out flaws in evaluation method. End summary.

Poor Ranking

2. In its 2006 banking soundness rating for 125 economies, the WEF lowered Taiwan's ranking to 100th from 74th in 2005. Banking soundness was one of 89 factors on the WEF global competitiveness rating. Taiwan's 2006 overall ranking dropped from 8th to 13th, and the United States' ranking from first to fifth.

Taiwan Regulator Disagrees

3. In response to the poor rating, the Financial Supervisory Commission Banking Bureau (BB) held a press conference on September 27 to rebut the WEF findings. The BB noted that the WEF did not base its bank rating on financial indicators as capital adequacy ratio, non-performing loan (NPL) ratio, return on asset (RA) ratio, and return on net worth (RE) ratio. Instead, the WEF based its rating on a simple questionnaire which asks ordinary businessmen (without financial backgrounds) to judge the soundness of the

banking system. BB claims that the questionnaire's sole question on banks reads: "Banks in your country are: 1=insolvent and may require a government bailout, 7=generally healthy with sound balance sheet."

The BB also noted that the WEF never interviewed any of Taiwan's banking regulators.

Good Shape but Poor Profitability

¶4. According to the BB, Taiwan banks are in relatively good shape with good quality assets. Their average capital adequacy ratio is 10.33%, higher than the 8% required by Basil II. Their average NPL ratio is 2.39%. Their profitability in term of RA or RE ratio is relatively poor but is expected to improve as delinquent debt problems seem to be under control.

Poor Ranking for the United States and Japan

¶5. According to the BB, while the rating for Taiwan was unfair, the WEF also gave the United States a ranking of 27th, worse than 18th for Chile, 19th for South Africa, and 22nd for Barbados. The ranking for banks in Japan was 76th.

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